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Governor

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Lieutenant Governor

State of Utah

December 27, 2004

Department of
Natural Resources

ROBERT L. MORGAN
Executive Director

Division of
Oil, Gas & Mining

MARY ANN WRIGHT
Acting Division Director

To: Mark Mesch, Acting Associate Director of Mining *MM*

Thru: Daron Haddock, Minerals Permit Supervisor *DH*

From: Steve Schneider, Oil & Gas Audit Manager *Steve*

Re: Intrepid Mining Self-Bonding Financial Review

I have performed a preliminary review of the financial aspects of Intrepid Mining's self-bonding proposal in their letter dated December 17, 2004. This review has been hampered by a lack of complete financial data submitted by the company, but the following comments are provided prior to the January 6, 2005 meeting, as requested by Mark.

1. No financial statements were submitted with this request. The unaudited financial statements for the nine months ending September 30, 2004 referenced as attached in the letter were not provided, and no audited financial statements for Intrepid Mining were submitted for the prior five years. Therefore, no evidence has been received that Intrepid Mining has been in continuous operation as a business entity for the last five years, as required in a standard written contractual agreement for self-bonding. Also, no public financial statement data was available from the SEC website for Intrepid Mining.
2. Utilizing unaudited financial data as of September 30, 2004, which was included in the narrative of Intrepid Mining's letter, Intrepid Mining fails the self-bonding qualification ratio of total liabilities / net worth. Intrepid Mining's ratio of 3.75 at September 30th exceeds the ratio maximum of 2.5 on the self-bonding qualification sheet. Intrepid Mining suggests they would qualify if the Division and Board would allow Intrepid Mining to estimate future cash flow and earnings of the company to determine their current financial position, rather than utilize generally accepted accounting principles, GAAP, which is requested on the self-bonding qualification form.

3. Intrepid Mining proposes to cancel their full reclamation bond and commence a reclamation fund with an initial deposit of \$600,000, or 9.6% of the total reclamation amount, and monthly deposits for 18 years thereafter with an expected return of 5.5%. If mining or economic conditions change during the next five years and the mine needs to be reclaimed, less than one-third of the total reclamation amount would be available in the reclamation fund. The Division management and the Board would need to make a policy decision on the level of risk they desire to accept for this bonding method.

I can be reached at 538-5328 if there are additional questions.

cc: John Baza